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The White House Fall Offensive Continues

"We have made it clear that we are not kidding - no more Mr. Nice Guy," declared Vice President George Bush September 11 before a San Francisco audience. But whether the administration's continuing campaign to talk tough on trade and wrest control of the issue from Congress will succeed remains an open question. While the White House has attempted to fight the good fight against Democratic momentum on trade, it has not convinced once-loyal Hill Republicans that its actions will defuse the politically explosive issue.

Following the September 7 announcement that the president would initiate investigations of unfair trade practices concerning Japan, Korea, Brazil and

It may have been this last element that led the party to retain the disputed limit. Many Diet members apparently felt that dropping the one percent cap while elevating defense plans would generate serious opposition, particularly from the Japan Socialist Party, and could lead to a vote of no-confidence that would have considerable support -- even from some in the LDP. The opposition of former prime ministers Suzuki, Miki and Fukuda was also a key consideration in party policy sessions. The prime minister, who is intent upon securing a third term as party president and prime minister in December 1986, apparently did not want to risk dissolving the government by pressing the issue.

In typical Japanese fashion, it is not entirely clear that the one percent limit has in fact been formally retained. Some analysts have pointed to comments that the limit will be in effect "for the time being" as evidence that it will ultimately be stretched to accommodate higher spending and will serve more as a general guideline rather than a strict limitation. Washington apparently disagrees with this interpretation. Under Secretary of State Michael Armacost came very close to criticizing the Japanese decision when he noted that the United States hopes its allies -- specifically Japan -- will assume a greater share of the defense burden in light of the primary role the United States is playing in terms of allied defense. He also implied that the decision to retain spending limits will impede the government's progress in meeting the goal of defending its sealanes to a distance of 1,000 miles. The comments were viewed by Japanese analysts as the most critical defense-related statement from the Reagan administration in recent memory. Officially, the administration has maintained a stance that Japan alone should be responsible for making decisions regarding its defense.

Japanese press reports also suggest that the cabinet now will make a formal decision regarding participation in the Reagan administration's Strategic Defense Initiative. The two governments are nearing agreement on a transfer of Japanese military technology expected to be applied in the SDI project, but the Nakasone cabinet has not yet responded to last spring's DOD letter urging allied support of the R&D program. Under the influence of Foreign Minister Shintaro Abe, the government has taken a cautious stance, testing the political waters and gauging other allied responses before making a formal commitment to participate in the project. Some U.S. observers, noting the less than enthusiastic response of several American allies, have suggested that Japan will take a similar position, adding that the bilateral technology transfer agreement facilitates Japan's contributing to the program without formally participating. Others have noted that the rumored inclusion of Great Britain and West Germany will sway Japan to accept formal participation. A decision is said to be expected by mid-October.

Michael W. Chinworth

Japan Considers South African Sanctions

The Japanese government is reacting cautiously to the issue of levying additional sanctions against the government of South Africa, unwilling to jeopardize the country's economic interests but fearful of being branded a supporter of the apartheid regime. Most Japanese observers agree that for the

moment, Japan will remain unaffected by recent developments, including Pretoria's decision to delay repayment of certain loans, but the issue could become more complex if it appears that Japan is benefiting from American-imposed constraints on South Africa's economic activities.

In terms of total trade value, South Africa is not an important element of Japan's overall trade. Two-way transactions in 1984 totaled just over $3.4 billion, an increase of 3.6 percent over 1983. Total trade for the first half of 1985 has dropped to $1.4 billion from 1984's first-half figure of $1.8 billion. Japan's exports are running at half the level of the previous year, although imports from South Africa accelerated sharply from March to May of this year compared to year-earlier figures -- perhaps reflecting Japan's concern over economic and political conditions.

Non-electric machinery dominates Japan's exports to South Africa, while raw materials constitute the bulk of its imports. Japan depends heavily on South African exports of certain rare metals, particularly rhodium, which is used in manufacturing catalytic converters for automobiles. According to Nihon Keizai Shimbun, Japanese auto executives are confident that supplies of the metal will remain sufficient for the near future, and producers are shifting to other types of converters that do not require rhodium. Japan's dependence on other South African ores is considerable. The country provides 42 percent of Japan's platinum, half its manganese, 47 percent of its anthracite coal and 42 percent of its chrome. The September 1 miners' strike, involving thousands of South African workers, could ultimately have an impact on supplies in these areas, but industry sources insist that for the moment there is no reason to panic.

Japan's Trade with South Africa, 1980-1985

(in millions of dollars; percentage of total in parentheses)

Year	Exports	Imports	Balance
1980	$1,800.3 (1.4%)	$1,740.9 (1.2%)	$59.4
1981	2,222.0 (1.5)	1,728.3 (1.2)	493.7
1982	1,654.7 (1.2)	1,840.2 (1.4)	-185.5
1983	1,738.0 (1.2)	1,587.3 (1.3)	150.7
1984	1,839.9 (1.1)	1,610.6 (1.2)	229.3
1984 (1st half)	989.3 (1.2)	792.4 (1.1)	196.9
1985 (1st half)	493.8 (0.6)	891.1 (1.4)	-397.3

Source: Japan Tariff Association

Finance officials also are putting on confident exteriors, noting that the Japanese government has made no direct loans to Pretoria and that if South

Africa is to qualify for additional private sector financing, it will be forced to reach payment terms with individual companies, thus suggesting that the private sector is in no danger of over-extending itself in South Africa.

These considerations, however, may prove to be far less important than the political issues at stake. Foreign Minister Shintaro Abe has indicated that the government is prepared to discuss the question of sanctions with the United States. Although no specific date has been set, it is likely that such talks will take place in the near future, perhaps as early as mid-October. Japan has honored sanctions against South Africa in the past, including United Nations and U.S. boycotts on exports of certain products, but it is unclear what stance the government will assume in the upcoming discussions. Given the growing international pressure on South Africa and the unpopularity of the apartheid policy within Japan, however, it is reasonable to assume that Mr. Abe will be inclined to follow a path consistent with international positions on the issue. Japan has been relatively supportive of U.S. policy initiatives in other areas of the continent, particularly Angolan issues, and has accelerated assistance to the drought-stricken areas of the equatorial nations. Furthermore, it would be severely damaging politically for Japan to appear to profit from the sanctions, given international criticism of Tokyo's trade policies at this time. Still, Japan's reliance on certain South African metal and coal supplies may complicate the picture.

Michael W. Chinworth

Japan-Taiwan Trade

Taiwan was Japan's sixth-largest export market in 1984, purchasing almost $6 billion worth of goods. Shipments were about 40 percent higher than in 1982, when Taiwan banned imports of more than 1,500 Japanese consumer products to protest its chronic trade deficit with Tokyo. This increase, however, was overshadowed by a rise in Japan's exports to the People's Republic of China in 1984. Moreover, during the first six months of 1985, deliveries to the PRC were double those in the year-earlier period, while exports to Taiwan during this time declined 16 percent.

Japan's Trade with Taiwan and the People's Republic of China

(in millions of dollars)

	1982	1983	1984	January-June 1984	January-June 1985
Exports					
Taiwan	$4,255	$5,086	$5,986	$2,966	$2,481
People's Republic of China	3,511	4,912	7,217	2,886	6,000
Imports					
Taiwan	2,443	2,622	3,204	1,647	1,641
People's Republic of China	5,352	5,087	5,958	2,953	3,160

Source: Japan Tariff Association

With a 10 percent share, Japan remains Taiwan's second-largest trading partner after the United States, which takes almost one-half of the island's exports. Foreign trade, an important factor in Taiwan's rapid growth, has been expanding more slowly in 1985. Total exports, which gained 21.3 percent in 1984, increased only 1 percent in the first six months of this year as exports to the United States fell and shipments to Japan remained flat. Taiwan's exports to Hong Kong, however, increased 37 percent during the first half of 1985. Trade analysts believe that most of those goods were bound for the PRC. Indirect trade between Taiwan and the PRC is expected to top $1 billion in 1985.

In May, Taipei approved Nissan's bid to buy a 25 percent equity share of Yue Loong Motor Co., Taiwan's largest car manufacturer. The decision to waive the rule against direct stock purchases by foreign investors may encourage more foreign investment. The agreement gives Nissan a direct foothold in Taiwan's growing car market, where imports of Japanese cars are forbidden because of Taipei's trade deficit with Tokyo. The agreement follows the collapse of two years of negotiations between Toyota and Taipei over Toyota's proposal to build a large plant capable of producing 300,000 cars annually. The two sides failed to agree on export and local content requirements.

Randall S. Jones

Corporate Earnings In Japan Expected To Decline

According to two private research institutes in Japan, corporate earnings in FY 1985 will decline for the first time in three years. Wako Research Institute of Economics expects pre-tax corporate earnings to decline 4.1 percent in the current fiscal year, while Nikko Research Center predicts a 1.3 percent fall. Both forecasts are in sharp contrast to their June estimates of a 4 to 5 percent increase in the fiscal year that ends March 31, 1985. Despite the expected decline in earnings, the surveys, which exclude banks and insurance companies, anticipate a 3 to 5 percent increase in sales.

Sluggish exports of steel and semiconductors are the major cause of the growing pessimism. Nikko expects the earnings of the steel and electrical industries to decline by 16 percent. The slump in semiconductors will affect related industries, including chemicals, ceramics and nonferrous metals.

There are some bright spots, however. According to Wako, the auto industry will register strong earnings gains as a result of brisk exports, while stable commodity prices will lead to higher earnings in the food industry. The non-manufacturing sector, led by construction and real estate, will show a second consecutive yearly increase in profits, Nikko analysts report.

The economy appears to be growing more slowly than the 5.7 percent rate of real growth in FY 1984. In addition to the expected decline in corporate earnings, investment is expected to increase less than during the previous fiscal year. Government and most private forecasters are predicting that the economy will grow 4.6 percent in real terms in FY 1985.

Randall S. Jones